STABILISATION WITHOUT ADJUSTMENT: NAMIBIA IN TRANSITION

Stabilisation After Decline

Over 1986-1988 the economy of Namibia stabilised in classic IMF terms. The external balance improved; external debt fell as did reliance on external consumption transfers; the government borrowing requirement vanished; GDP ceased to fall and indeed rose albeit less rapidly than population. The exchange rate declined faster than inflation so that export sector profits reappeared and became healthy. A classic case of the virtues of orthodox IMF adjustment carried out without the IMF it could be argued especially as in the early 1980s fiscal irresponsibility characterised by rapid real wage and employment increases in the government service, an increasingly overvalued currency and losses for several key sub-sectors of exports and a falling GDP had characterised the territorial economy.

Continuing this line of analytical sketching it could also be argued that the World Bank's goal of stabilisation with structural adjustment and growth of GDP per capita was not being met. Nor was its condition that stabilisation which rent the fabric of society was unsustainable. GDP growth remained less than that of population. Wage growth was at best parallel to prices while wage employment as static or declining absolutely and declining relative to population. Unemployment and the share of households in absolute poverty rose; real state expenditure on health and education fell. No real change in production structures was achieved, the recovery owed more to exogenous price and weather changes than to any other factor. Nor was future structural change nor growth being built in to the economy; net fixed investment in the directly productive sectors remained negative with private capital in flight from fixed assets within Namibia and from Namibia to elsewhere (along with some of the smaller capitalists). Again a classical case of stabilisation for an orderly, sustained economic decline.

Both analytical points do tell something about the Namibian economy over 1986-88. It is a mineral and livestock/animal products export economy which was hit by terms of trade worsening, drought, fiscal gaps and late adjustment to the changed economic context of the 1980s. In that sense it resembles Zambia as does its record of failing to achieve growth when it did (briefly albeit repetitively in Zambia's case) follow classic IMF stabilisation. It does not much resemble its neighbour and mirror (despite a parallel mineral/livestock base) economy Botswana which averaged nearly 10% annual real GDP growth, rising employment, a healthy government budget (treating concessional external finance as acceptable) and a huge basic external balance surplus as well as lesser inflation, a declining share of households in absolute poverty and rising real state expenditure on health and education as well as water and food security.

A Poor Example and/or A Special Case

Up to a point the sketch and the comparisons are useful. Namibia's economy was stunned by external shocks and mismanaged. Partial reversal of the shocks and of the mismanagement has halted decline but not restored either development or sustained growth of output *per person*. Arguably the 1986-88 macroeconomic record is better than that of Zambia but clearly very much worse than that of Botswana. That is a poor example for the Republic of South Africa's claim that one virtue of white rule in Southern Africa is better economic management and greater investor confidence in the state and the future. Judging by the record Botswana rule would be much better on both counts. That point is a valid one but somewhat limited in identifying two key characteristics about the economy of occupied Namibia and sketching the depth of its economic malaise whether defined in human condition or growth and structural change terms.

Namibia remains what it has been since 1966 - a territory illegally occupied by the Republic of South Africa. And it remains a territory wrenched by continuing war and rising militarisation. These two factors are central to explaining the nature of its 1980-85 economic decline and the limits of 1986-88 stabilisation.

The fiscal irresponsibility stemmed from two basic causes:

a. 'security' expenditure to assist RSA in holding Namibia in the face of rising armed resistance;

b. "buy a bantustan" style spending sprees on parallel adminstrations and a black public sector employee middle class to defuse rising civil and political organisation and opposition to continued RSA occupation.

The budgetary impact was disastrous and the results at best marginal and temporary. Certainly the war has not been lost but as total RSA expenditure on it is of the same order as or greater than the territorial product of GDP and, despite this, RSA troops in 1988 were forced out of Angola by a military defeat thinly papered over by a negotiating facade, it is hardly productive expenditure even in a long term RSA perspective. Possibly a black middle class with consumption demands likely to plague an independent Namibian state has been created but the 1987-88 growth of militant trade unionism and the rising tide of church centred (or at least channelled) and political opposition to the so-called 'multi party government' suggest that multiple administrations and real wage increases (now being eroded under austerity) for a black state employee elite have brought little or nothing except a high tax burden and a rigid expenditure pattern.

Similarly much of the production - profitability - investment impasse can be related directly to occupation and war. An independent Namibia (like Botswana) could have negotiated an EEC beef quota, thus escaping the cost/price scissors that combined with drought to cut up the ranching sector. It could probably have enforced some medium term sanity (conservationism and managed harvesting) on fishing helping restore that sector. It could (like Botswana) have negotiated diamond output levels with De Beers averting the over 50% 1980-1985 volume cutback. Rossing would not have faced the term contract falling away and price cuts to sustain sales volume problems which exacerbated the general 1980s softening of the uranium oxide market. War and total uncertainty about the future helped dry up enterprise investment and certainly helped prevent structural change production sector investment comparable to - e.g. - Botswana's burgeoning (even if still small) manufacturing sector. The economic price of international political ostracism, domestic political uncertainty and war is a very high one - especially in an international economic context which has more generally turned sour for mineral export economies.

Occupation's Economic Cost: A Counterfactual Sketch

Since 1977 the Namibian economy has stagnated or recovered sluggishly in good years and declined in bad never growing at a rate equal to population for two consecutive years. This is a poor record by Sub-Saharan African standards. 1977-88 Namibian GDP growth was -2%. For Tanzania it was 16%. More to the point over 1980-88 Botswana, the most similar economy structurally and in absolute size achieved a nearly 10% annual growth of GDP. Clearly the outturn of South African economic oversight (in both meanings) in Namibia is unsatisfactory by any criteria.

To attempt to assess the cost in terms of lost GDP requires some counterfactual assumptions. One not unreasonable set are: a) South Africa had allowed 435 process independence in 1977 and a stable SWAPO or SWAPO-SWANU-Damara Chiefs-NCDP government had emerged; b) in 1978-79 transition had led to low growth because the outflow of white high and middle level personnel was higher than Zimbabwe but lower than Mozambique but initial post-independence assistance had allowed 1% a year GDP growth; c) so 1980 GDP was about the same under this scenario but, d) from 1980 a 5% a year average GDP growth rate was achieved (about half that of Botswana).

The result would have been a 1988 GDP about 47% above 1980 instead of one about 5% below, i.e. a GDP per capita of the order of $1,250-1,300 versus $875-900 (in 1986 prices at 1986 exchange rates). Further GDP per capita would have risen about 1.5% a year instead of falling over 4% annually on average. That is the difference between economic success and economic failure. The 1988 GDP loss from occupation on this basis is of the order of $750 million (in 1986 prices/exchange rates) and the cumulative 1980-88 loss of the order of $3,000 million or of the order of twice probable actual 1988 GDP (in 1986 prices).

Further for black Namibians that macro economic order of magnitude understates the difference. Namibia under occupation has one of the world's most unequal income distributions with 1983 white household incomes averaging R 20,000, a 10% black middle class (miners, public servants, businessmen, professionals) R 6,000 and the 60% of Namibians who live in absolute poverty R 1,000, i.e. 20 to 1 between the white households and the main body of black households. Clearly any independent government would have moved on universal access to basic health care (where the white to black expenditure ratio under occupation is 10 to 1), education, water, agricultural and ranching extension and services to small farmers and making room for the 'informal' sector and labour intensive public works. It is difficult to suppose less than a 100% gain over 1980-88 for the 60% now in absolute poverty.

A quick check of components at sectoral and sub-sectoral level validates the plausibility of this scenario;

a. diamond output decline held to 20% (1,600,000 carats at the trough) instead of over 50%;

b. renewal or closing of new term contracts for uranium oxide;

c. proving and opening of enough medium size mines to sustain base metal output and proven reserves;

d. a 20-25,000 tonne EEC beef quota at well above RSA prices;

e. sensible fishery management leading by 1988 to substantial stock recovery and catches;

f. a domestic small farmer and wage earner demand base expansion allowing 50 to 75% higher manufacturing output from extant capacity and 1980s action on long delayed proposals e.g. cement, textiles;

g. grower price rationalisation in favour of crops boosting small farmer income from increased output of, e.g . maize, oilseed, cotton, tomatoes (for tomato sauce for fish tinning), fruits and vegetables as well as dairy products;

h. more pre-export processing of cattle - and of hides into leather and products - and of fish;

i. substitution of basic services (including extension) personnel for parallel racial administration bureaucrats and 'security' personnel leaving government employment (except for construction) about the same but sharply increasing both services and human investment;

j. ability to use the Ruacana Falls dam for power and developing selective irrigation in the north;

k. shifting imports (and transport) from high cost RSA to lower cost global (and internal) sources (routes);

l. restoring productive sector fixed investment to positive net levels via public sector investment and a less alarming and uncertain context encouraging domestic and foreign subsidiary private investment;

m. reforming taxation (including an independent customs and excise) to increase revenues and mobilising external soft loans and technical assistance;

n. creating an independent currency decoupling (linked to trade and transport as well as fiscal restructuring from the inflation and stagnation prone RSA economy which is hobbled by the economic inefficiency (to enterprises and for GDP growth and probably for many white as well as most black incomes) and the heavy costs of repression and bantustans leading to stagnation, inflation and chaotic interest and exchange rate swings.

In large part the answer to the query - but would this have been possible? - is that it was for Botswana which had less trained personnel at independence than Namibia would have even in 1978 (as of 1988 it has more than any Southern African state except Zimbabwe had at independence a tribute to SWAPO's determined pursuit of training for Namibians and the UN and bilateral support under the "Nationhood Programme" umbrella raised by then UN Commissioner Martti Ahtisari). And 5% is only half the growth rate Botswana actually achieved (despite a drought roughly parallel to Namibia's).

Repression's Human Cost

The price of repression can be seen in the human condition indicators set out in Table 1 for Black Namibians in Occupied Namibia contrasted with those for Black Namibians in exile in Angola and for Botswana with subsidiary data underlining the racist divide in occupied Namibia's meaning for quality of life.

Every figure for black people in occupied Namibia - except GDP per capita - is worse than for either the exiles at Kwanza Sul or for Botswana. Indeed except for war ravaged Mozambique and Angola every figure is the worst or tied for the worst in the nine SADCC states plus Namibia (the occupied 10th) That GDP per capita is higher than for any SADCC state except Botswana underlines the willful nature of the failures on other counts - other states did more with less resources. And on GDP growth (as noted earlier) Namibia under occupation did very badly - over 1980-88 only war devastated Mozambique of the SADCC states fared worse.

The figures do not tell of widespread arbitrary arrests, beatings, rapes, tortures, detentions, murders and disappearances. One has to go to SWAPO data, The Namibian, court and inquest records and Church documentation for that. Nor do they show that about 100,000 Namibians have fled into exile and 250,000-300,000 been dislocated from de jure and de facto free fire zones in the north (where normal rural life and often any rural production is no longer possible) into the Oshikati Triangle (where infrastructure for 50,000 is overwhelmed by 250-300,000 with water and sanitation grossly absent and malaria, plague and cholera grossly present and the squatter areas and townships around Windhoek and smaller Namibian towns. That is about 20% of Namibia's people in foreign or domestic exile.

Further, UNICEF has recently broadened its 1986 war related death estimates for Angola and Mozambique to cover Namibia. Over 1980-88 UNICEF's estimate is 90,000 souls dead who would otherwise be alive - about 5% of the estimated 1,700,000 domestic and exile population as of 1988.

UNICEF assumes 1978 independence and introduction of universal primary health care (as stated in SWAPO policy and practiced in exile) with 1988 infant and young child deaths 125 per 1,000 live births versus a present estimated actual of 300 (below the 325-375 estimate for war wracked Angola and Mozambique but far above other SADCC states). That implies over 50,000 infants and young children dead because of the occupation who with independence and peace would be alive. Malnutrition and weakened health care have probably cost 20,000 more lives, civilian casualties of war 10,000 and combat 5,000 each for PLAN and RSA's black local auxiliaries and mercenaries (plus at least 2,500 white South Africans) counting deaths from wounds, accidents and illness contracted while in uniform.

The death and human suffering like the economic price of Pretoria and its occupation is a heavy one on Namibia and Namibians - for 90,000 of them over the past eight years literally a killing price.

Signs of Macroeconomic Stabilisation

After analysing the price of occupation and repression there is a certain ghastly irony in assessing the successes and limits of the occupation regime's 1985-88 stabilisation efforts. But they are serious, they are not totally ineffectual and the present and near term future state of the economy do determine to a not inconsiderable extent where an independent Namibia will start.

There is another irony - with the vertigenous GDP decline halted, the budget restructured (pruned) so that RSA transfers are less than 'security' spending for RSA and the current external balance healthy, RSA is not touting its achievements. Rather it is bad mouthing Namibia as an economic "basket case" to deter would-be supporters of the 435 process and the independent state. That by so doing it totally demoralises its own puppet government and the private sector in Namibia apparently no longer matters to it. Or perhaps it matters negatively - South Africa has decided to pull out before the end of 1990 and is launching an economic destabilisation by disinformation campaign.

Gross Domestic Product after falling 2.3% in 1980, 0.3% in 1981, 2.2% in 1982, 3.1% in 1983, 1.5% in 1984 and 0.8% in 1985 rose 3.5% (in 1980 prices) in 1986. In 1987 and 1988 it probably rose 2.0 to 2.5% a year. This bottoming out and partial recovery turns on the core productive sectors: agriculture, fishing, mining. In agriculture the end of drought and better prices for karakul have been crucial albeit 1988 insect (locust and ormyworm) damage may halt the recovery. By 1986 the fish catch appears to have stabilised albeit with over half of the 150-175,000 tonne 1986-88 levels the lower value maasbanker and mackerel and under 10% the previous mainstay - anchovies. Whether stocks really have recovered to make 150,000-200,000 tonne catches now and a recovery over 10 years to 500,000 tonnes sustainable is far from clear and arouses hot debate which given the scanty data available now cannot be resolved. Given RSA's past record there is reason to be sceptical. Mining recovery turns on higher base metal prices, surprising stability in Rossing's ability to sell and a substantial recovery in diamond prices and a lesser (but probably 20%) recovery in Consolidated Diamond Mines output by 1988 from its 1985 lows.

Adjusting the 1986 official estimate of R 2,937,500 for its exclusion of Walvis Bay and gross underestimation of 'informal' sector and household own use (food and housing) production suggests a 1986 GDP of R 3,375,000 or about $900 per capita (at 1986 Rand/$ rates).

Price and exchange rate stabilisation have eluded occupied Namibia. The Consumer Price Index rose on average over 12.5% a year over 1980-86 inclusive and probably 15% a year over 1987-88. In an economy with slow growth of monetary personal incomes and a healthy trade balance this is very high. So is the radical fall in the exchange rate from 0.778 to the USA $ in 1980 to 2.269 in 1986 and about 2.5 in 1988, albeit worsening terms of trade could explain much of that. The answer of course is simple. Occupied Namibia produces very little (perhaps 10%) of the physical goods it produces and imports 90% of the rest from high inflation South Africa while its currency is South Africa's debt, divestment and inflation ridden rand.

Central Government Revenue rose from R 640 million in 1981/82 to R 1,571 million in 1986/87 and about R 1,900 in 1988/89. RSA transfers - excluding the payment in substitution for customs and excise - rose from negligible in 1980/81 to nearly R 475 million in 1986/87 but then fell to R 310 million odd in 1988/89 which is barely comparable to 'defence' and other 'security' costs of RSA paid by the occupation regime's domestic budget. In 1989/90 they are slated to fall to R 100 million.

The payment in replacement for customs and excise rose from under R 50 million in 1980/81 (when at 20-25% of imports it should have been about R 200-250 million) to R 350 million in 1986/87 (when on the same basis it should have been R 400-500 million) and R 400 million in 1988/89 (versus a probable reasonable level of R 500-625 million). Thus the shortfall here has in several years exceeded the so-called transfer proper, was probably over half of it in 1988/89 and will exceed it again in 1989/90. So much for South Africa's repeated claim that Namibia is fiscally unviable.

Expenditure by the central budget rose from R 1,036 million in 1983/84 to R 1,900 million odd in 1987/88 and 1988/89. The 1988/89 figure represents a sharp reduction (perhaps 8-10% since there were very limited pay rises) in real terms explaining the rapid deterioration reported in health and education.

Since 1985/86 the occupation regime has been a small net repayer of debt not a net borrower. RSA guaranteed borrowings (de facto all other than normal bills being processed) fell from R 810 million in early 1986 to about R 750 million at the end of 1988. Of these R 190 million were asserted to be "domestic" - in occupied Namibia? - and R 560 million to be "foreign" - from RSA institutions? These breakdowns are a mystery as there is little evidence of substantial SWA stock holdings in Namibia (R 50 million for banks and other financial institutions is a high estimate). Nor has there been any evidence of sales outside RSA - despite assertions to the contrary. Indeed as the securities are (per prospectus) denominated in rand with interest payable in RSA it is a trifle difficult to see how they could be marketed abroad. The reversal of the 1981/82 - 1984/85 borrowing spree and the de facto admission by RSA that all the loans are rand denominated (and therefore, though RSA does not admit this, held by institutions in RSA or occupied Namibia) means that outstandings are far lower (especially in $ terms) than previous independent estimates of up to $750 million. This is in a sense of interest only to RSA despite its delaying tactic of demanding UN acceptance of liability. Both in general international law on state succession and also under the 1971 World Court opinion this 'debt' is void in respect to an independent Namibia because after 1966 South Africa was in illegal occupation and could not conclude binding economic contracts including issuing debt.

The Mining Sector - A Respite For What?

The mining sector is looking much better than in 1984 because in 1985 and 1987-88 base metal prices (while still historically low in real terms especially for copper) broke out of their 1975-84 trough; because Rossing managed to continue to find markets for 3,500 tonnes a year of uranium oxide at £60,000 at tonne, i.e. over $50 per pound despite supposed ending of term contracts and $20 per pound spot prices; and De Beers has both regained control over the diamond market's inventories and markup patterns and begun restoring output.

As a result copper, led and zinc (concentrate) production - primarily Tsumeb now rechristened Gold Fields Namibia - are well over 50,000, 40,000 and 60,000 tonnes respectively, i.e. at 1980s highs. In 1985 Tsumeb ended a string of losses with a post tax profit of R 39 million and after a copper price fall linked decline to R 16 million in 1986 rose to over R 50 million in 1987 and a projected R 89 million for 1988 against a 1980-84 total of R 16 million in losses.

Longer term problems remain. While prospecting and proving of deposits continue new mine development (except for a single gold mine) has been mothballed since the late 1970s both because of world prices and the political uncertainty surrounding Namibia. Output after 1990 will decline unless new mines are brought on stream. Further the Minorco-Congold (UK) takeover battle has ended the amicable Anglo-Goldfields (RSA) condominium in respect of Goldfields (RSA) and Goldfields (N) with unpredictable fallout.

Rossing's profit in 1986 was £55 million after tax - the same as 1985 but only because of a higher tax charge as pre-tax rose from £90 to £95 million. The previous record level (on a higher tonnage) was £91 million in 1982. Unless sanctions have actually begun to bite - which seems unlikely - Rossing looks set to have continued pre-tax profits in the £90 to 100 million range over 1987 and 1988 as lower rand exchange rates have offset rising rand prices so far as the hard currency denominated earnings go.

Consolidated Diamond Mines output fell from about 2 million carats in the late 1970s diamond boom to about 900,000 at the 1985 low but began recovery to over 1,000,000 in 1986 and may approach 1,250,000 in 1988. De Beers has always used CDM (Oranjemund) as a "swing" mine to balance globally marketed output with demand so that the upswing may well continue. Ironically this is none too welcome from independent Namibia's point of view - a financially sound CDM is an asset but preferably one with as high reserves (including the now virtually certain upstream Orange River bank extension which De Beers clearly does not intend to develop until after independence) as possible.

After tax profits plummeted from peaks around R 200 million in the late 1970s to R 29 million in 1982 and R 33 million in 1984. 1985 and 1986 saw recovery to R 101 million and R 123 million with R 150 million and up to R 200 million likely for 1987 and 1988. Direct and indirect diamond tax therefore is likely to have risen from about R 40 million in 1983 to the order of R 200 million by 1988/89. Indeed the recovery of the world diamond market has been the dominant factor behind government revenue buoyancy in occupied Namibia.

Other Developments

RSA continued of offload territorial units on the interim government - in 1988 the railways system from SATs to the National Transport Corporation (NTC) which also took over Namib Air. Both are heavily loss making as presently operated.

While the major strikes - notably at Tsumeb - of 1987 were not repeated, 1988 was a third year of continuing large scale labour organisation with five major unions - mining, public service, commerce and finance and transport - now in the field. Their politics are analogous to those of COSATU in South Africa. Together with the Churches they are central to civil society resistance in Namibia to RSA rule because of the major restrictions on overt political party activity (except for the non-supported puppet parties of the Multi-Party Government).

SWAPO in 1988 continued its steady manpower development and refugee service programmes. With the 1986 publication of Namibia: Perspectives on National Reconstruction and Development planning moved from high key conferences on alternatives to lower key hammering out of choices.

Consultations with representatives of white settlers - especially but not only the German speaking community - were stepped up in 1988 with an important conference in Stockholm in July. Both sides expressed guarded optimism on the outcome. SWAPO viewed the results as providing a base for most farmers, small businessmen and technical civil servants to remain on terms acceptable to them and to SWAPO to avoid the type of transitional shocks (and settle financial losses) that characterised Angola, Mozambique and Algeria. At least the German speaking settlers seemed to take a similar view.

In that sense the question is still - how soon? After what? Namibian independence is a pre-condition far more than stabilisation as settlers, foreign enterprises, most observers and SWAPO (and in private RSA) agree. It is also inevitable but how soon remains unclear, an unclarity that is a drag on the economy as is the continuing state of war.

TABLE 1

Selected economic and quality of life indicators - Namibians 1986[a]

	Black Namibians In Namibia		In Exile In Angola	Botswana As Comparison
Population (millions)	1.5	(0.1)	0.075	1.2
Under 5 mortality (per 1000 births)	235-300[b]	(30)	70	95
Infant mortality (0-1) (per 1000 births)	175-200[c]	(21)	50	70
Infant and child malnutrition (%)	35-50	(5)	2.5 (23.6)[f]	32
Average calorie intake relative to requirements (%)	80	(100)	100	94
Access to health services (%)	60	(100)	100	90
Access to safe water (%)	33	(100)	75	80
Primary enrollment (%)	60-75	(100)	100	90
Adult (over 15) literacy (%)	30	(100)	75	65
One-year-olds fully vaccinated (%)				
TB	30	(NA)	100	70
DPT	30	(NA)	70	82
Polio	NA	(NA)	70	77
Measles	25-30	(NA)	100	75
Life Expectancy at birth	40-43[d]	(69)	NA	57
GNP per capita (national)	$900		$350-500[e]	$1000
Per Cent in absolute poverty	65	(Negl)	10	20[g]

Notes:

a. Data for Black Namibians in Namibia are not all for 1986. Given general economic deterioration it is likely earlier statistics show less bad position than later ones would.
b. ( ) Figures are for white population.
c. The lower figures are based on official Windhoek data; the higher make conservative allowances for the higher rates in rural areas.
d. 43 is based on official mortality returns which overweight Windhoek and almost certainly under-record deaths.
e. Estimate of external assistance in cash and kind ($10 to 15 million) and camp value added in services ($5 to 7.5 million); not strictly speaking territorial product.
f. 23.6 if "at risk" category is added to "malnourished" and "undernourished".
g. After food security and related transfer payments.

Sources:

Based on or estimated from "Health and Social Welfare", "Water and Resources", "Macro Economic Structures, Trends and Perspectives", "Education and Culture" and "Labour and Employment" in United Nations Institute for Namibia, Namibia: Perspectives for National Reconstruction and Development, Lusaka 1986; N. Anderson, Health Sector Policy Options for Independent Namibia, UNIN, Lusaka 1984; Economist Intelligence Unit, Namibia: Country Profile 1987-88, London, 1988; SWAPO Department Of Health And Social Welfare, Report From the Under-5-Clinic Team, Luanda, 1986 and Annual Progress Report, Luanda, 1988.

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